Supreme Court, U.S.
FILED
04146 9 MAY 3 - 2005
OFFICE OF THE CLERK

No. _____

In The

Supreme Court of the United States

VINCENT CHIECO,

Petitioner,

v.

WILLIS & GEIGER and LANDS' END,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR WRIT OF CERTIORARI

STEFANIE M. BROWN, ESQ.*
Counsel of Record
17170 Remington Road
Colorado Springs, Colorado 80908
(*licensed in California only)
Telephone: (719) 495-9997
Facsimile: (719) 457-5953

Attorney for Petitioner
Vincent Chieco

COCKLE LAW BRIEF PRINTING CO (800) 225-6964
OR CALL COLLECT (402) 342-2831

QUESTIONS PRESENTED

The questions presented below are raised by the Petitioner/Plaintiff copyright holder Vincent Chieco ("Chieco") who, despite a jury verdict in his favor against Lands' End for copyright infringement, walked away from the district court with a net monetary loss because the jury could not, under the instructions given, award any profit nor fashion a license fee for hundreds of infringements that, though found to exist, did not qualify for statutory damages. The $0 profit and to actual damage awards [App. 10] in turn dictated the court's mixed rulings on post-trial requests for fees and costs [App. 15-18], resulting in a net monetary loss for the prevailing copyright plaintiff.

Input and guidance from the Supreme Court is necessary on the following questions in order to bring uniformity and consistency across the Circuit Courts of Appeal to the interpretation and application of the federal copyright statutory language (particularly as it pertains to profit and license fee analyses). Additionally, the anomalous adverse net result appears to have its genesis in the overly-extended swing of some decisional pendulums (e.g., against an award of discretionary fees for prevailing copyright plaintiffs) following *Marek, Farrar* and *Fogarty*[1] in the decade (or two – in the case of *Marek*) that has passed since this Court issued those landscape-altering attorney fee decisions. Further comment and/or clarification by this Court at this time is required to direct the pendulum back from the extreme of the swing and closer

---

[1] *Marek v. Chesny*, 473 U.S. 1 (1985), *Farrar v. Hobby*, 506 U.S. 103 (1992), and *Fogarty v. Fantasy, Inc.*, 510 U.S. 517 (1994).

QUESTIONS PRESENTED – Continued

to its equilibrium, albeit at a different midpoint, in the wake of those decisions.

License Issues (Copyright Act)

1. Are the Second and Seventh Circuits correct in holding that a reasonable license fee is an appropriate measure of damages under the "actual damages" prong of the Copyright Act's damage statute (Section 504(b))[2] (and is the Sixth Circuit *in*correct when it states: "The remedies available under copyright law do not include damages for the reasonable value of the defendants' use of the work")?

2. Is the Ninth Circuit's model "actual damage" instruction – which frames a hypothetical license negotiation as if it were between strangers and further places it within the confines of a "reduction in the market value" of the copyrighted work "caused by the infringement" – a misleading instruction that improperly suggests a $0 actual damages award for hundreds of infringements where, though there might not be a traditional "reduction in market value of the copyright" caused by the infringement, there is a lost license fee perfectly capable of being calculated based on past negotiations between the parties *at bar* and industry practice?

---

[2] Unless otherwise indicated, statutory references are to the Copyright Act, 17 U.S.C. §§ 101 *et seq.*

QUESTIONS PRESENTED – Continued

Expert Issues

3. Where the trial court refused to hear, and did not rule on, Plaintiff/Petitioner Chieco's challenges to Lands' End's damage expert (in violation of this Court's precedent in *Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 158-159 (1999) (Scalia concurrence: "[T]rial court discretion in choosing the manner of testing expert reliability – is not discretion to abandon the gatekeeping function") and where the Ninth Circuit assumed that the district court's failure to rule on Chieco's challenges to Lands' End's damage expert was erroneous (App. 3-4), can the Ninth Circuit's simultaneous determination that the acknowledged error was "harmless" (App. 3-4) be reconciled with the fact that the jury awarded Chieco the exact figure in statutory and overall damages ($32,700) (App. 12) that had been provided to the jury by the challenged Lands' End's expert?

Profit Issues (Copyright Act)

4. Where the statutory profits analysis provides that the copyright owner need only show revenue derived from infringing activity before the burden shifts to the infringer to prove deductible expenses (17 U.S.C. § 504(b)), and where Chieco proved that Lands' End received over $2.4 million in revenue from infringing activity and separately proved that Lands' End told its shareholders that it had lost $1.1 million *less* than it had anticipated losing in its liquidation of Willis & Geiger merchandise:

   a. Was the Ninth Circuit correct in finding that Lands' End's general statements – e.g.,

QUESTIONS PRESENTED – Continued

"liquidations are by definition unprofitable" and "Willis & Geiger, as a company, never turned a profit" – satisfied the statutory burden of proof on the expense prong of the profits analysis under Section 504(b)? or

b. Is the standard articulated by the Second Circuit, citing Supreme Court and Sixth Circuit authority, correct:

> [The infringer] did operate at an over-all loss, but that gave it no immunity from accounting for any profits made by the infringement merely because they were less than enough to make its entire business profitable.

Wilkie v. Santly Bros., Inc., 139 F.2d 264, 265 (2d Cir. 1943), citing *Tilghman v. Proctor*, 125 U.S. 136, 8 S.Ct. 894, 31 L.Ed. 664 (1888); *Fox Typewriter Co. v. Underwood Typewriter Co.*, 287 F. 447 (6th Cir. 1923); and:

> If it was proved that it lost less because of the infringement, to that extent the infringement gave it a profit for which it must account.

Id., citing *Mowry v. Whitney,* 14 Wall. 620, 20 L.Ed. 860 (1872); *Brown Bag-Filling Machine Co. v. Drohen*, 171 F. 438 (2d Cir. 1909)?

Attorney Fee/Cost Issues (Copyright Act, F.R.Civ.P. 68)

5. Is it inconsistent with the purpose underlying the fee statute in the Copyright Act, and with this

QUESTIONS PRESENTED – Continued

Court's *Marek v. Chesny*[3] decision, to deny a prevailing copyright plaintiff all of his attorney fees, including the *pre*-Rule 68 Offer of Judgment fees, *solely* on the grounds that the district court believed that the Rule 68 Offer was valid and should have been accepted?

6. In determining whether post-Rule 68 Offer costs should be shifted to a prevailing copyright plaintiff (and prevailing attorney fees forfeited under *Marek, supra*), is it not necessary to add the plaintiff's *pre*-Rule 68 Offer costs and attorney fees to the amount awarded to the plaintiff by the jury before the amount "ultimately recovered by" the plaintiff can be fairly compared to a Rule 68 Offer amount, if valid, to see which, indeed, is a "more favorable" for cost-shifting and fee-forfeiting purposes?

[3] *Marek v. Chesny*, 473 U.S. 1 (1985).

PARTIES TO THE PROCEEDING

Petitioner is Vincent Chieco, an individual copyright holder, who was the plaintiff, appellant and cross-appellee below.

Respondent Lands' End, to the best of Petitioner's knowledge, is a Wisconsin corporation. (Petitioner defers to the anticipated corporate disclosure of Respondents to explain its current, if any, relationship with Sears and/or others). Respondent Willis & Geiger was a division of Lands' End. At the time the matter went to trial, Lands' End continued to maintain the ownership of, and rights associated with, the Willis & Geiger brand and trademark in North America and Europe. Both respondents were defendants, appellees and cross-appellants and both are collectively referred to herein as "Respondents" and/or "Lands' End."

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED	i
PARTIES TO THE PROCEEDING	vi
TABLE OF CONTENTS	vii
TABLE OF AUTHORITIES	ix
PETITION FOR WRIT OF CERTIORARI	1
OPINIONS BELOW	1
JURISDICTION	2
STATUTES INVOLVED	2
STATEMENT OF THE CASE	3
REASONS FOR GRANTING THE WRIT	7
I. SUPREME COURT GUIDANCE IS NEEDED TO BRING UNIFORMITY ACROSS THE CIRCUITS REGARDING WHETHER AND, IF SO, HOW THE LICENSE FEE MEASURE OF DAMAGES IN COPYRIGHT CASES SHOULD BE MADE AVAILABLE TO COPYRIGHT HOLDERS SEEKING THE PROTECTION OF THE FEDERAL ACT	7
II. DISTRICT COURTS AND CIRCUIT COURTS OF APPEALS MUST FOLLOW THIS COURT'S ARTICULATION OF THE MANDATORY NATURE OF THE DISTRICT COURT'S GATEKEEPING DUTIES VIS-À-VIS CHALLENGED EXPERTS OR RISK THE INTEGRITY OF THE FEDERAL COURT SYSTEM AND OTHERWISE UNNECESSARY APPEALS	15

TABLE OF CONTENTS – Continued

Page

III. UNIFORMITY IS REQUIRED ACROSS THE CIRCUITS REGARDING THE NATURE OF THE BURDEN OF PROOF THAT DEFENDANTS MUST MEET ON THE EXPENSE PRONG OF THE STATUTORY COPYRIGHT PROFIT ANALYSIS 18

IV. UNTIL THE CONFUSION SURROUNDING THE RELATIONSHIP BETWEEN A RULE 68 OFFER AND COSTS/FEES ALLOWABLE PURSUANT TO 17 U.S.C. § 505 IS ADDRESSED – AND THE POST-*FARRAR* AND *FOGARTY* BACKLASH AGAINST COPYRIGHT PLAINTIFFS' COUNSEL FEES IS CHECKED – FEDERAL COURTS WILL BE ENCOURAGING INFRINGEMENT BY CREATING AN ECONOMIC DISINCENTIVE TO ACTIONS TAKEN TO ENFORCE COPYRIGHT PROTECTION 23

A. Degree of Success Factor Is Relevant to Amount of Fees, Not To Threshold Eligibility Inquiry 23

B. Pre-Rule 68 Offer Fees Should be Added to Jury Award Amount Before Comparing the "Ultimately Recovered" Figure Against the Rule 68 Figure for post-Offer Cost Shifting Purposes 26

CONCLUSION 27

TABLE OF AUTHORITIES

Page

CASES

Blackman v. Hustler Magazine, Inc., 800 F.2d 1160 (D.C. Cir. 1986) 19, 20, 22

Brooke Group Ltd. v. Brown & Williamson, 509 U.S. 209 (1993) 13

Brown Bag-Filling Machine Co. v. Drohen, 171 F. 438 (2d Cir. 1909) 21

Business Trends Analysts, Inc. v. Freedonia Group, Inc., 887 F.2d 399 (2nd Cir. 1989) 8

Champion Produce v. Ruby Robinson Co., 342 F.3d 1016 (9th Cir. 2003) 27

Data General Corp. v. Grumman Systems Support Corp., 36 F.3d 1147 (1st Cir. 1994) 28

Daubert v. Merrell Dow Pharmaceuticals, Inc., 509 U.S. 579 (1993) 6

Davis v. The Gap, Inc., 246 F.3d 152 (2d Cir. 2001) 8

Deltak, Inc. v. Advanced Systems, Inc., 767 F.2d 357 (7th Cir. 1985) 8, 28

Douglas v. Cunningham, 194 U.S. 297 (1935) 23, 29

Farrar v. Hobby, 506 U.S. 103 (1992) 24, 26, 27

Fogarty v. Fantasy, Inc., 510 U.S. 517 (1994) 24, 25, 27

Fox Typewriter Co. v. Underwood Typewriter Co., 287 F. 447 (6th Cir. 1923) 21

Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc. (Frank Music II), 886 F.2d 1545 (9th Cir. 1989) 24

TABLE OF AUTHORITIES – Continued

Page

Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568 (Fed. Cir. 1988) 12, 29

Gaste v. Kaiserman, 863 F.2d 1061 (2d Cir. 1988) 23

Goebel v. Denver & Rio Grande Western R.R. Co., 215 F.3d 1083 (10th Cir. 2000) 15, 16

In Design v. K-Mart Apparel Corp., 13 F.3d 559 (2d Cir. 1994) 24

In re Citric Acid Litigation, 191 F.3d 1090 (9th Cir. 1999) 13

Jinro America, Inc. v. Secure Investments, 266 F.3d 993 (9th Cir. 2001) 17

Kumho Tire Co., Ltd. v. Carmichael, 526 U.S. 137 (1999) 6, 15

Marek v. Chesny, 473 U.S. 1 (1985) 24, 27

Maxwell v. J. Baker, Inc., 86 F.3d 1098 (Fed. Cir. 1996) 29

McCulloch v. Albert E. Price, Inc., 823 F.2d 316 (9th Cir. 1987) 24

Micromanipulator Co. v. Bough, 779 F.2d 255 (5th Cir. 1985) 24

Mills Music, Inc. v. Snyder, 469 U.S. 153 (1985) 14

Morales v. City of San Rafael, 96 F.3d 359 (9th Cir. 1996) 26

Mowry v. Whitney, 14 Wall. 620, 20 L.Ed. 860 (1872) 21

Mukhtar v. Cal. State Univ., Hayward, 299 F.3d 1053 (9th Cir. 2002) 15, 16

TABLE OF AUTHORITIES – Continued

Page

Oboler v. Goldin, 714 F.2d 211 (2d Cir. 1983) (per curiam) 25

Olympia Equip. Leasing v. W. Union Telegraph, 797 F.2d 370 (7th Cir. 1986) 17

Original Appalachian Artworks, Inc. v. Toy Loft, Inc., 684 F.2d 821 (11th Cir. 1982) 24

Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152 (6th Cir. 1978) 29

Petrogradsky Mejdunarodny Kommerchesky Bank v. National City Bank, 253 N.Y. 23, 170 N.E. 479 (1930) (Cardozo, J.) 17

Playboy Enterprises, Inc. v. Baccarat Clothing Co., Inc., 692 F.2d 1272 (9th Cir. 1982) 29

Russell v. Price, 612 F.2d 1123 (9th Cir. 1979) 19, 23

Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340 (7th Cir. 1994) 28

Scheriff v. Beck, 452 F.Supp. 1254 (D. Colo. 1978) 27

Sheldon v. Metro-Goldwyn-Mayer Pictures Co. ("*Sheldon II*") 309 U.S. 390 (1940) 20, 23

Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp., 562 F.2d 1157 (9th Cir. 1977) 8

Smithkline Diagnostics, Inc. v Helena Laboratories Corp., 926 F.2d 1161 (Fed. Cir. 1991) 29

Stickle v. Heublein, Inc., 716 F.2d 1550 (Fed. Cir. 1983) 12

Tilghman v. Proctor, 125 U.S. 136 (1888) 20

Texas State Teachers Ass'n v. Garland Indep. School Dist., 489 U.S. 782 (1989) 26

TABLE OF AUTHORITIES – Continued

Page

Weisgram v. Marley Company, 528 U.S. 440 (2000) 14

Wilkie v. Santly Bros., Inc., 139 F.2d 264 (2d Cir. 1943) 20, 21

Woolworth Co. v. Contemporary Arts, 344 U.S. 228 (1952), *cert. denied sub nom. Drebin v. Russell*, 446 U.S. 952, 100 S.Ct. 2919, 64 L.Ed.2d 809 (1980) 19, 20

Wrench LLC v. Taco Bell Corp., 256 F.3d 446 (6th Cir. 2001) 8

UNITED STATES CONSTITUTION

Art. I, § 8, cl. 8 2

UNITED STATES CODE

Title 17

Section 101 ii

Section 412(2) 6

Section 504 ..... 3, 6, 18

Section 505 ..... 3, 23, 24, 26, 27

Title 28

Section 1254(1) 2

Section 2106 14

TABLE OF AUTHORITIES – Continued

Page

Title 42

Section 1983 26

Section 1988 26

Section 1988(b) 26

FEDERAL RULES OF CIVIL PROCEDURE

Rule 68 ..... *passim*

SUPREME COURT RULES

Rule 10 12

TREATISES

II Paul Goldstein, *Copyright* (2d ed. 2000) 11

Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* (1999) 8, 10

PETITION FOR WRIT OF CERTIORARI

Petitioner Vincent Chieco ("Chieco") respectfully petitions for a writ of *certiorari* to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

OPINIONS BELOW

The Judgment of the United States Court of Appeals for the Ninth Circuit, filed on February 15, 2005, is marked "filed and entered" November 17, 2004. App. 5-6. The memorandum opinion on which that judgment was entered is dated November 17, 2004. App. 1-4. The order denying panel rehearing and denying rehearing *en banc* was filed on February 2, 2005. App. 13-14. The Judgment of the district court was entered on August 27, 2001 (App. 7), as was the jury's Special Verdict Form. App. 8-12. The ruling wherein the district court denied plaintiff's request for attorney fees – expressly relying exclusively on the plaintiff's rejection of a Rule 68 Offer a year earlier – was made from the bench on November 9, 2001. App. 15-18. The court also limited Chieco's $17,000 in claimed costs to $1,912 and awarded Lands' End its post-Rule 68 Offer costs of $6,008.83 (for a net cost ruling of $4,096.83 to Lands' End). App. 18 (11/09/01 verbal ruling); TAB.219[4] – p.5, line 5 (written order following supplemental cost bill submissions in accordance with court's order).

[4] Record references that do not begin with "App." refer to the record submitted to the Ninth Circuit. "App." references are to the appendix submitted herewith.

JURISDICTION

The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1).

STATUTES INVOLVED

The Patent and Copyright Clause confers upon Congress the Power

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

U.S. Const., art. I, § 8, cl. 8.

Pursuant to that power, Congress promulgated the Copyright Act, the damage provisions of which provide:

> Remedies for infringement: Damages and profits
>
> (a) In General. – Except as otherwise provided by this title, an infringer of copyright is liable for either –
>
> (1) the copyright owner's actual damages and any additional profits of the infringer, as provided by subsection (b); or
>
> (2) statutory damages, as provided by subsection (c).
>
> (b) Actual Damages and Profits. –
>
> The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement

> and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

17 U.S.C. § 504.

> In any civil action under this title, the court in its discretion may allow the recovery of full costs by or against any party other than the United States or an officer thereof. Except as otherwise provided by this title, the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.

17 U.S.C. § 505.

STATEMENT OF THE CASE

Chieco is an award-winning copywriter and creative director with a specialty in brand building who in 1994 agreed – subject to certain conditions (paramount of which was creative control) – to lend his considerable talents, time, and effort, to write the catalog copy for the new marketing avenue (direct as opposed to wholesale) that the history-rich, adventurer-spirit-initiated Willis & Geiger was about to embark upon immediately after having been acquired by Lands' End, the self-proclaimed direct marketing king (in terms of volume).

Chieco has valid copyright registrations from the United States Copyright Office for each of the items that he wrote, on a freelance basis, for Willis & Geiger's

catalogs over a four-year period – totaling over 400 individual items in 11 separate copyright registration groupings (one grouping of copy per catalog season/two seasons per year).

In addition to the statutory protection, Chieco had both verbal and written assurances (including a signed contract – TAB.151| |TR EX.74) that no one would change any of the copy he wrote nor would it be used in any medium other than the Willis & Geiger print catalogs. The contract also documented the parties' understanding that if a desire developed to use the copy in a manner or medium different from that for which it was originally written and licensed, such subsequent use could occur only with Chieco's permission and involvement for additional "agreed" compensation. Over the course of four years, Willis & Geiger paid Chieco $290,000 for the right to use, without alteration, Chieco's copy in a single medium: i.e., the Willis & Geiger print catalog.

Toward the end of their relationship, Chieco learned that Lands' End and Willis & Geiger, contrary to their representations and contrary to their written agreement, were in fact, and had been, using Chieco's copy in *several* unauthorized media: (1) In an overstocks book called the Lands' End "Broadside"; (2) In "stuffers" or flyers material that Lands' End inserted in the boxes that contained completed orders sent to Lands' End's customers,[5] and

[5] Lands' End "Broadside" [aka "Overstocks" catalog (TAB. 207| |299:24-300:2)] was published with Willis & Geiger items, and Chieco's copy, in 1997, 1998 and 1999. It was primarily a Lands' End liquidation vehicle in which Willis & Geiger products were inserted (approximately two Broadsides were published per year in question) (*id.*, at 297:24-298:12). They were Lands' End publications – with "Lands' End" across the top (*id.*, at 299:9-12). Lands' End stuffers were

(Continued on following page)

(3) On the Internet. These practices apparently began with overstock liquidations in 1997 and in late 1998 and through 1999, when Lands' End decided to close Willis & Geiger, included the liquidation of all Willis & Geiger inventory.

The jury agreed with Chieco that the multiple-media uses to which Lands' End had put all 400 items of Chieco's copyrighted copy over a several year period, i.e., those found outside of the Willis & Geiger print catalogs, were in excess of the permissive scope and violated Chieco's copyrights. App. 9. Chieco also argued, and the jury found, that "either" Lands' End or Willis & Geiger concealed a material fact from Chieco (App. 9), but the jury declined to find willful infringement against Lands' End alone and was not asked about Willis & Geiger. App. 11. The court inexplicably, and on its own, removed Willis & Geiger – against whom most of the willful evidence had been introduced[6] – from all infringement and damage interrogatories in the jury verdict form and handed the new form to counsel for the first time only after Chieco's counsel's closing was concluded but before Lands' End's counsel's closing argument. *Cf.*, *e.g.*, App. 9/Q.2 ("Did Lands' End infringe . . . ") *with* App. 9/Q.5 ("Did either defendant . . . "). Before those changes, all interrogatories to the jury inquired about both Lands' End and Willis & Geiger.

---

also used in 1997, 1998, and 1999. They were Lands' End flyers with some Willis & Geiger products inserted among the Lands' End items (*id.*, at 300:8-23).

[6] Such as, but not limited to Willis & Geiger's president's admission that he had personally edited Chieco's catalog copy for use in the Broadsides and that he had not involved Chieco in the subsequent (unauthorized) uses because Chieco would have "cost too much." Ch.Suppl.TAB.209 | | 659:1-3 and 660:1-6.

The jury granted Chieco $32,700 in statutory damages for the only two infringed works[7] that were registered with the Copyright Office in time to qualify for statutory damages; $0 in damages for the hundreds of other infringements that it found had occurred; and $0 in profits.

The figure, $32,700 figure was provided to the jury by Lands' End's damage expert – whom the court allowed to testify without hearing nor ruling on Chieco's *Daubert/Kumho*[8] motion. On this point in Chieco's appeal to the Ninth Circuit, the Ninth Circuit stated that even if the trial court had committed error, it was harmless. App. 3-4.

The Ninth Circuit also affirmed: (1) the district court's allocation of the costs around the Rule 68 Offer; (2) its denial of attorney fees to the prevailing party, Chieco, as well as those sought on cross-appeal by Lands' End; (3) the alleged lack of prejudice to Chieco from the district court's several statements, in front of the jury, that Chieco's "reasonable fee" evidence was not, in the *court's* opinion, reasonable; and (4) several other matters challenged by Chieco there – either by expressly addressing them, though with some mischaracterizations – and/or

---

[7] Although Chieco wrote hundreds of items of copy for dozens of Willis & Geiger Books from 1995 through 1998, he did not register any copyrights with the U.S. Copyright Office until early 1999. The parties and the court agreed that statutory damages are not available for *most* of the infringements in this case. *See*, Section 412(2). Rather, Chieco's measure of damages for the majority of infringements at issue, i.e., those that do not qualify for elective statutory damages is: " . . . [1] *actual damages* suffered by him . . . and [2] *any profits* of the infringer . . . " Sections 504(a)(1) & (b).

[8] *Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 147 (1999); *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 589 (1993).

by ignoring them. The latter group of Chieco's challenges are not among the items put before this Court in this Petition.

A Petition for Rehearing En Banc was timely circulated and denied. This Petition is brought within the 90 days allowed from that ruling.

REASONS FOR GRANTING THE WRIT

I. SUPREME COURT GUIDANCE IS NEEDED TO BRING UNIFORMITY ACROSS THE CIRCUITS REGARDING WHETHER AND, IF SO, HOW THE LICENSE FEE MEASURE OF DAMAGES IN COPYRIGHT CASES SHOULD BE MADE AVAILABLE TO COPYRIGHT HOLDERS SEEKING THE PROTECTION OF THE FEDERAL ACT.

As happened in the case at bar, absent a properly worded damage instruction that not only allows for the communications that the parties at bar have actually had with one another to be inserted into the retroactive hypothetical fee negotiation, and removes the negotiation from the artificial and unnecessary and confusing confines of a "diminution in the value" of the copyright caused by the infringement, the purposes of the Copyright Act will continue to be thwarted by infringers who are "stealing with impunity" while the federal courts in some of the Circuits, if not actively condoning it, are simply looking the other way.

The Copyright Act allows for "actual damages" and distinguishes them from statutory damages. "Actual damages" are not defined either in the Copyright Act or in

the accompanying legislative reports. *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357, 361 (7th Cir. 1985); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.02 at 14-6 (1984). Yet several Circuits, most notably the Second and Seventh, have recognized a loophole in the case law developed around the "actual damage" component of Copyright Act's damage analyses and have thoughtfully closed the loophole in a manner that is entirely consistent with the language and purpose of the Copyright Act. The Seventh Circuit, for example, acknowledged a license fee measure of damage under the Copyright Act. *Deltak*, 767 F.2d at 362 and n.3 (applying "saved acquisition cost" as measure of copyright damages – citing *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1174 & n.20 (9th Cir. 1977) – "value of use" as damage measure) and *Deltak*, 767 F.2d at 361 ("The value of the infringer's use is a permissible basis for estimating actual damages").

Others were not quick to follow. For example, the Sixth Circuit held recently that "[t]he remedies available under copyright law do not include damages for the reasonable value of the defendants' use of the work." *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446 (6th Cir. 2001). In support of its statement, the Sixth Circuit cited the Second Circuit case of *Business Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399, 406-07 (2nd Cir. 1989).

Business Trends has been strictly limited to its fact by a later Second Circuit case: *Davis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001). Even so, *Business Trends* and the Nimmer treatise on this point cannot be reconciled without obvious strain, if at all, with *Deltak* and *Davis*. Indeed, the Second Circuit in *Davis* noted that the trial court

believed that *Business Trends* "bars a copyright owner's claim for actual damages consisting of the infringer's failure to pay the fair market value of a license fee for the use the infringer made." *Id.* And it sure sounds like it does:

> We believe, as does Nimmer, that *Deltak* is based on a perceived need to avoid "the anomaly of affording plaintiffs a right without a remedy." 3 *Nimmer* § 14.02[A] at 14-14. It is surely true that where an infringer such as TFG sells the offending publication at a nominal price, and there is no evidence of lost sales of the infringed publication, a conventional profits test may seem inadequate. Nevertheless, we believe we must follow the statutory scheme. Our difficulty with expanding upon the design of the statute to remedy the seeming inadequacy derives not from a truncated sense of justice but from our conviction that Congress quite consciously limited the remedies available under Section 504(b). Although Section 504(b) may provide a conventional and narrow method of calculating damages and profits, the Copyright Act does not overlook the fact that this method, if the exclusive remedy, may lead to injustice and underenforcement of the copyright laws. Under Section 504(c), a copyright plaintiff may thus elect to recover statutory damages. The specific purpose of this section is to offer plaintiffs an alternative for use where Section 504(b) provides inadequate relief. The difficulty faced by BTA and the plaintiff in *Deltak* is that neither registered their copyright before the infringement and thus are not entitled to statutory damages. The issue before us, therefore, is whether we should in effect rewrite Section 504(b) because it provides inadequate relief to late registrants.

Business Trends, 887 F.2d at 406. Yet, two years later, the same Circuit, without overruling *Business Trends*, found its way, in a thoughtful and thorough opinion, to the opposite conclusion:

> To rule that an owner's loss of the fair market value of the license fees he might have extracted of the defendant do not constitute "actual damages," would mean that [where "the owner may be incapable of showing a loss of either sales or licenses to third parties"], an infringer may steal with impunity. We see no reason why this should be so . . . [I]n our view, the statutory term "actual damages" is broad enough to cover this form of deprivation [loss of "the fair market value of the license fees"] suffered by infringed owners.

Davis, 246 F.3d at 166 (emphasis added); *see also*, *id.*, at 168. In *Davis*, though not in *Business Trends*, the Second Circuit takes issue with the Nimmer[9] treatise's position questioning whether a license fee is a proper measure of damages in a copyright infringement case and its suggestion that Congress might have intended no compensation for certain infringements. *Id.* at 163, 167, 169-172 ("We

---

[9] Referring to Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* (1999), the Second Circuit noted:

> Recognizing that the unavailability of reasonable royalties as a measure of actual damages, combined with the absence of statutory damages for owners who failed to register their copyrights would, in certain circumstances, deprive copyright owners of all compensation, Nimmer suggests that perhaps Congress intended to leave such copyright owners remediless to create an incentive to owners to register their copyrights so as to qualify for statutory damages. *See id.* at 14-17. [¶] We are not persuaded by Nimmer's reasoning.

Davis, 246 F.3d at 171.

are not persuaded by Nimmer's reasoning") – favoring instead the Goldstein[10] copyright treatise's approval of a license/value of use damage measure.

Nonetheless, because it attempted to distinguish rather than overrule its earlier *Business Trends* decision, the latter was cited by the Sixth Circuit in 2002: "The remedies available under copyright law do not include damages for the reasonable value of the defendants' use of the work." *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446 (6th Cir. 2001).

So different Circuits, and different copyright commentators, are taking diametrically opposed positions on the availability of this measure of damages – even while acknowledging that, without it, a copyright holder who has proven infringement may be left without a remedy.

Similarly confused is the Ninth Circuit's model "actual damage" instruction – which frames a hypothetical license negotiation as if it were between strangers and further places it within the confines of a "reduction in the market value" of the copyrighted work "caused by the infringement." It is misleading and improperly suggests, as happened to Chieco, that $0 in actual damages should be awarded despite the jury's finding of hundreds of infringements because, though there might not be a traditional "reduction in market value of the copyright" caused by the infringement, there is a lost license fee perfectly capable of being calculated based on past negotiations between the parties *at bar* and industry practice.

---

[10] The Second Circuit cited: II Paul Goldstein, *Copyright* § 12.1, at 12:4, 12:1.1.1, at 12:7 and 12:11 (2d ed. 2000). *Davis*, 246 F.3d at 169-170.

The law *compels* compensation through a hypothetical license negotiation – even where the parties are strangers – to establish "a floor below which a damage award may not fall." *Fromson v. Western Litho Plate and Supply Co.*, 853 F.2d 1568, 1574-75 (Fed. Cir. 1988) (patent). In cases such as this, where the parties are not strangers, any hypothetical negotiation must take into account the particular facts of the parties in the dispute. *Fromson,* 853 F.2d at 1578; *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1561-1562 (Fed. Cir. 1983) (notably absent from findings is "any consideration of the actual negotiations between the parties and other evidence which negates that the 'use royalty' applied by the court would flow from such hypothetical negotiations").

In addition to providing guidance in this conflicted area of law (S.Ct.R.10(a)) to all of the federal courts, the Court, on this Petition, could simultaneously exercise its supervisory power to correct the Ninth Circuit's departure (through sanction of the lower court's actions) from the accepted and usual court of judicial proceedings (S.Ct.R.10(a)). Chieco's intellectual property rights, for example, were not trampled upon by a stranger. Rather, Chieco and Lands' End had four (4) years of business history to plug into the fee analysis and both he and Lands' End's challenged damage expert actually *agree on one formula* used in the industry to calculated subsequent use fees. The only disagreement pertains to the figures plugged into that formula:

	$ PER ITEM LE PAID CHIECO IN PAST	# OF ITEMS INFRINGED		INDUSTRY MULTIPLIER		TOTAL FEE
CHIECO:	$1200/item	x 400 items	x	300%	=	$1,440,000
LE'S EXPERT:	$ 85/item per mo.	x 518 items per mo. on Net (sum)	x	100%	=	$ 32,700[11]

Because, as noted below, the expert's testimony should never have been allowed and bore no relationship to reality, it should be stricken.

> When an expert opinion is not supported by sufficient facts to validate it in the eyes of the law, or when indisputable record facts contradict or otherwise render the opinion unreasonable, it cannot support a jury's verdict.

Brooke Group Ltd. v. Brown & Williamson, 509 U.S. 209, 242 (1993).

> [A]ny inference founded upon [an unsupported] factual assertion – even one drawn by an economic expert – is necessary unreasonable.

In re Citric Acid Litigation, 191 F.3d 1090, 1102 (9th Cir. 1999) (emphasis added).

---

[11] TAB.151| |TR.EX.114/p.D; TAB.214| |1634:18 and 1636:15-19 – though, curiously, the expert's math does not appear to be correct: $85 x 518 = $44,000.

Under the authority of 28 U.S.C. § 2106[12] and this Court's *Weisgram* decision,[13] the erroneously-admitted and harmful expert testimony should be stricken and judgment directed to be entered on the only evidence properly remaining in the record of the proper figures to plug into the reasonable license fee formula that both sides agree is the proper formula, i.e., those figures offered by Chieco which result in a $1,440,000 license fee (if the industry standard[14] of a multiplier of 3 is applied) or $480,000 (if a multiplier of only 1 is applied – as even Lands' End's expert testified was appropriate under the circumstances).

---

[12] [A]ny court of appellate jurisdiction may affirm, modify, vacate, set aside or reverse any judgment, ... and may remand the cause and **direct the entry of such appropriate judgment** ... or require such further proceedings to be had as may be just under the circumstances.

28 U.S.C. § 2106.

[13] Since *Daubert*, ... parties relying on expert evidence have had notice of the exacting standards of reliability such evidence must meet.... In this case, for example, although Weisgram was on notice every step of the way that Marley was challenging his experts, he made no attempt to substitute other evidence. [Citation omitted.] ("[A] litigant's failure to buttress his position because of confidence in the strength of that position is always indulged in at the litigant's own risk.").

Weisgram v. Marley Corp., 528 U.S. 440, 455-456 (2000).

[14] *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 170-171 (1985) (Supreme Court assumes Congress intended to incorporate prevailing industry practices when it enacted the Copyright Act).

II. DISTRICT COURTS AND CIRCUIT COURTS OF APPEALS MUST FOLLOW THIS COURT'S ARTICULATION OF THE MANDATORY NATURE OF THE DISTRICT COURT'S GATEKEEPING DUTIES VIS-À-VIS CHALLENGED EXPERTS OR RISK THE INTEGRITY OF THE FEDERAL COURT SYSTEM AND OTHERWISE UNNECESSARY APPEALS.

On paper, the Ninth Circuit agrees with this Court's precedent in *Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 158-159 (1999) (Scalia concurrence: "[T]rial court discretion in choosing the manner of testing expert reliability – is not discretion to abandon the gatekeeping function"). *See, Mukhtar v. Cal. State Univ., Hayward,* 299 F.3d 1053, 1064 (9th Cir. 2002) ("Surely, however, the trial court's broad latitude to make the reliability determination [of the expert] does not include the discretion to abdicate completely its responsibility to do so.")

Yet in practice in this case, the Ninth Circuit ruled that the district court's failure to hear or rule[15] on the challenges Chieco raised to the damage expert was "harmless" (App.

[15] The Ninth Circuit requires, as does the Tenth, that if a ruling is made, that there be evidence of it in the record – and there is none here. *Goebel v. Denver & Rio Grande Western R.R. Co.,* 215 F.3d 1083, 1088 (10th Cir. 2000) ("But we specifically hold that a district court, when faced with a party's objection, must adequately demonstrate by specific findings on the record that it has performed its duty as gatekeeper"); *Mukhtar v. Cal. State Univ., Hayward,* 299 F.3d 1053, 1066 (9th Cir. 2002) ("We agree with the Tenth Circuit that 'some ... reliability determination must be apparent from the record' before we can uphold a district court's decision to admit expert testimony.").

3-4) because rather than enter the expert's number, $32,700, in the "actual damage" line, the jury put $32,700 in the statutory damage line instead and put a zero ("0") next to "actual damages."

By the Ninth Circuit's own standards, and certainly those of other circuits, the error is not "harmless", i.e., it "more probably than not was the cause of the result reached." *Mukhtar v. Cal. State Univ., Hayward,* 299 F.3d 1053, 1066-67 (9th Cir. 2002). Indeed, "if we are unable to say that the probabilities favor the same result and are unsure whether the error was harmless, a new trial is required." *Id.* And: " . . . [I]t is hard for us to see how Dr. Wellman's testimony, which addressed the central issue of Elsayed's case, was harmless; rather it 'more probably than not was the cause of the result reached.'") *Id.*, at 1068. Here, the jury's total award to Chieco, $32,700, is exactly the same number that Lands' End's challenged expert gave to the jury. It *is* "more probable than not" that the jury got that particular number from the export.

By Tenth Circuit standards, the "harm" is also clear: "Erroneous admission of evidence is harmless only if other competent evidence is 'sufficiently strong' to permit the conclusion that the improper evidence had no effect on the decision." *Goebel v. Denver & Rio Grande Western R.R. Co.,* 215 F.3d 1083, 1089 (10th Cir. 2000). Other than that expert's testimony there was *no* evidence that contradicted Chieco's license fee formula – which itself was supported by his experience, his conversations with colleagues in the industry, depositions of persons most knowledgeable in the industry taken by Lands' End, and the offer of proof from Grant Richards whom the court would not allow to testify

on Chieco's behalf – whether as a lay person, a lay opinion, a belatedly-designated expert, or in rebuttal.

> Expert evidence can be both powerful and quite misleading because of the difficulty in evaluating it. Because of this risk, the judge in weighing possible prejudice against probative force under Rule 403 . . . exercises *more control* over experts than lay witnesses.

Jinro America, Inc. v. Secure Investments, 266 F.3d 993, 1004 (9th Cir. 2001) (also warning of danger of "cloaking with the mantle of an expert" a person whose evidence is irrelevant to the facts at bar and unreliable). An "opinion has a significance proportioned to the sources that sustain it." *Petrogradsky Mejdunarodny Kommerchesky Bank v. National City Bank,* 253 N.Y. 23, 25, 170 N.E. 479, 483 (1930) (**Cardozo,** J.). "The projection of lost profits that . . . expert witness made to the jury bore no relation to . . . [its] business . . . or economic reality . . . .[E]xpert witnesses . . . are 'often the mere paid advocates or partisans of those who employ and pay them'" . . . L. **Hand,** . . . The expert in this case dazzled the jury with 'an array of figures conveying a delusive impression of exactness,' . . . (**Friendly,** J.) . . . delusive because the figures had no relation to reality." *Olympia Equip. Leasing v. W. Union Telegraph,* 797 F.2d 370 (7th Cir. 1986).

The district court's refusal to follow the procedure so clearly set forth in this Court's precedent, and the Ninth Circuit's haste to endorse the disobedience cries out for immediate, swift, and stern correction. If the country cannot count on the lower courts of this country to respect and follow this Court's precedent and direction, then chaos will overtake whatever order remains in the judicial

process and multiple, otherwise needless appeals, will follow.

III. UNIFORMITY IS REQUIRED ACROSS THE CIRCUITS REGARDING THE NATURE OF THE BURDEN OF PROOF THAT DEFENDANTS MUST MEET ON THE EXPENSE PRONG OF THE STATUTORY COPYRIGHT PROFIT ANALYSIS.

The statutory profits analysis provides that if a copyright owner is able to show the *revenue* derived from infringing activity, then the burden in the profit analysis shifts to the infringer to prove deductible expenses (17 U.S.C. § 504(b)). Here, though Chieco proved that Lands' End received over $2.4 million in revenue from infringing activity and separately proved that Lands' End told its shareholders that it had lost $1.1 million *less* than it had anticipated losing in its liquidation of Willis & Geiger merchandise, Lands' End elected not to come forward with specific expenses for any of the print infringements, relying instead, over warnings from Chieco's counsel that it was not adequate, on generalized statements such as "liquidations are *by definition* unprofitable" and "Willis & Geiger, *as a company*, never turned a profit" – to satisfy its defendants' statutory burden of proof on the expense prong of the profits analysis under Section 504(b).

After the "profits proof" had been presented, but well before the defense rested, Chieco's counsel explained the evidentiary shortfalls and the court noted that Lands' End "may well wish" to add to its proof presentation after it heard the explanation. But Lands' End elected to do nothing, relying instead on the generalities. Ultimately, the district court rejected Chieco's attempts to modify the

Ninth Circuit model instruction to better illustrate the statutory allocation of proof on the profits analysis and the Ninth Circuit allowed the $0 profit figure to stand despite the utter failure of the type of proof required from the defense.

Unlike the Ninth Circuit in this case, the D.C. Circuit (ironically through Ninth Circuit Justice Kozinski sitting by designation) explained:

> Plaintiff carried its burden in establishing the revenues earned by Hustler for the infringing issues of its magazine. There was then a failure of proof on Hustler's part in establishing expenses. Defendant attempted to meet its burden by proving an overall profit margin for its parent corporation. However, the district court, with good reason, rejected this feeble effort. As noted by the Ninth Circuit, where the infringer "does not assume this burden or if its attempt to do so is found unacceptable by the court, as was the case here, then 'the gross figure is left to stand as the profit factor.'" *Russell v. Price,* 612 F.2d 1123, 1131 (9th Cir. 1979) (quoting *F.W. Woolworth Co.,* 344 U.S. at 230, 73 S.Ct. at 224), *cert. denied sub nom. Drebin v. Russell,* 446 U.S. 952, 100 S.Ct. 2919, 64 L.Ed.2d 809 (1980).

Blackman v. Hustler Magazine, Inc., 800 F.2d 1160, 1163 (D.C. Cir. 1986). The D.C. Circuit, further explaining the pitfalls inherent in a trial court attempting to prevent what appears to be a windfall to the plaintiff when, because of the failure of proof, profits would be equal to the proven revenues, notes:

> As in this case, the infringer's profits may greatly exceed whatever actual damage the copyright holder may have suffered. He is nevertheless

> allowed to reap a windfall to further the Copyright Act's policy that infringers shall not profit from their wrongdoing. *See F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233, 73 S.Ct. 222, 225, 97 L.Ed. 276 (1952).

Blackman, 800 F.2d at 1163 n.6; and:

> We understand – and sympathize with – the learned district judge's attempt to do justice and avoid what may be a windfall to Blackman. However, we are not free to temper the scheme provided by Congress. For better or for worse, Congress allocated the burdens the parties must bear in proving profits under the 1909 Act. Because the plaintiff in a copyright case should be given "the benefit of every doubt," *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 408, 60 S.Ct. 681, 688, 84 L.Ed. 825 (1940), the court may resort to statutory damages only where plaintiff is unable to prove revenues or where the court determines that statutory damages would more adequately compensate the copyright holder.

Blackman, 800 F.2d at 1163.

Similarly, long expressed but seldom followed, is the Second Circuit's articulation of the ineffectiveness of the "overall" "no profits" generality type proof:

> [The infringer] did operate at an over-all loss, but that gave it no immunity from accounting for any profits made by the infringement merely because they were less than enough to make its entire business profitable.

Wilkie v. Santly Bros., Inc., 139 F.2d 264, 265 (2d Cir. 1943), citing *Tilghman v. Proctor*, 125 U.S. 136, 8 S.Ct.

894, 31 L.Ed. 664; *Fox Typewriter Co. v. Underwood Typewriter Co.*, (1888) 287 F. 447 (6th Cir. 1923); and:

> If it was proved that it **lost less** because of the infringement, to that extent the infringement gave it a profit for which it must account.

Id., citing *Mowry v. Whitney*, 14 Wall. 620, 20 L.Ed. 860 (1872); *Brown Bag-Filling Machine Co. v. Drohen*, 171 F. 438 (2nd Cir. 1909).

Here, when Lands' End liquidated the entire Willis & Geiger business, the anticipated $2.2 million "inventory write down" loss[16] *was reversed*, to the tune of $1.1 million, the following year because of "better than anticipated sell-through" of Willis & Geiger inventory.[17] So, in calendar year 1998 alone, Lands' End "lost $1.1 million less" than it would have absent the infringing activity and, per *Wilkie*, that is a profit for which it must account.

Yet as the D.C. Circuit case discusses, and as has occurred in this case and many others, although it has long been articulated by two Circuits, citing principles from this Court's early decisions, there is no uniformity or consistency in how the principles so articulated are *applied* to by trial courts to defendants who thumb their noses at the system – as J. Kozinski noted that Hustler was doing:

---

[16] Ch.Supp.ER.10 (08/09/01, 345:23-25 & 4-6) and 14 (349:8-17).

[17] TAB.207||352:14-25. These discussions were triggered by Lands' End's Annual Reports to its shareholders. TAB.151||TR.EX.202, at original p.25 (Lands' End's 1999 Annual Report, 3rd paragraph from bottom – identified at Ch.Supp.ER.12-13 (08/09/01, 347:3&16 and 348:1); *and* TAB.151||TR.EX.203, at original p.26, right-hand column (Lands' End's 2000 Annual Report); *and* Ch.Supp.ER.14-15 (08/09/01, 349:20-350:9).

> To mislay key documents under such circumstances shows about as much respect for the litigation process as republication of the infringing materials after suit was commenced shows for the copyright laws.

Blackman, 800 F.2d at 1164. Lands' End had reason to avoid specific proof of its expenses – the incrementally increased cost of dropping the infringing Willis & Geiger copy into existing Lands' End media was "incidental,"[18] so Lands' End stuck with its sympathy-evoking but legally ineffectual "no profits *overall*" refrain.

But J. Kozinski then went on, as so many others fail to do, to impose the consequence:

> In sum, we see this as a simple case. Plaintiff carried its burden; defendant did not. Since the statutory scheme calls for subtracting defendant's proof from that of the plaintiff, and since defendant's proof was found to be zero, the figure proven by plaintiff winds up establishing the profits from the *Hustler* issues in question.

Blackman, 800 F.2d at 1164.

Further on the subject of the type of expenses required of defendants' proof under the Copyright Act, the Second and Ninth Circuits and this Court have similarly

---

[18] The ordinary cost of producing the ongoing Lands' End's Broadsides was increased only incrementally by inserting a handful of Willis & Geiger items. LE.Supp.ER 125:14-18 and TAB.207||316:9-318:19 (Hughes). Sometimes Lands' End would *not charge* Willis & Geiger for the Willis & Geiger-related Broadside expenses because they were *de minimis*. Ch.Supp.ER.71-72 (08/13/01, 660:14-661:21) ("Q. It would have been relatively incidental amount in the sense that they had it all set up to go anyway and they were just dropping Willis & Geiger – A. That's correct. Q. – products in, right? A. Absolutely." *Id.* at 661:16-21).

said: (1) Where there is "imprecision in the computation of expenses, a court should err on the side of guaranteeing the plaintiff a full recovery." *Gaste v. Kaiserman*, 863 F.2d 1061, 1070 (2d Cir. 1988); (2) Only those costs "incurred by defendant **in connection with the unauthorized use** are properly deductible." *Russell*, 612 F.2d at 1130; and (3) "'Overhead' which does not **assist in the production of the infringement** should not be credited to the infringer . . . " *Sheldon v. Metro-Goldwyn-Mayer Pictures Co.* ("*Sheldon II*"), 309 U.S. 390, 409 (1940) (1909 Act).

In order to restore this aspect of the balancing and infringement-deterrent mechanisms that Congress saw fit to include within the Copyright Act, the word of this Court is necessary at this point in time. As this Court pointed out 70 years ago, ineffective remedies "encourage willful and deliberate infringement." *Douglas v. Cunningham*, 194 U.S. 297, 209 (1935).

IV. UNTIL THE CONFUSION SURROUNDING THE RELATIONSHIP BETWEEN A RULE 68 OFFER AND COSTS/FEES ALLOWABLE PURSUANT TO 17 U.S.C. § 505 IS ADDRESSED – AND THE POST-*FARRAR* AND *FOGARTY* BACKLASH AGAINST COPYRIGHT PLAINTIFFS' COUNSEL FEES IS CHECKED – FEDERAL COURTS WILL BE ENCOURAGING INFRINGEMENT BY CREATING AN ECONOMIC DISINCENTIVE TO ACTIONS TAKEN TO ENFORCE COPYRIGHT PROTECTION.

A. Degree of Success Factor Is Relevant to Amount of Fees, Not To Threshold Eligibility Inquiry

Section 505 of the Copyright Act provides that "the court in its discretion may allow the recovery of full costs

by or against any party . . . [and] may also award a reasonable attorney's fee to the prevailing party as part of the costs." 17 U.S.C. § 505.

Until relatively recent Supreme Court decisions, *Marek, Farrar,* and *Fogarty*[19] shifted the attorney fee landscape, a copyright plaintiff could be relatively sure of finding competent counsel to bring an action to enforce copyright protection even where damages might be difficult to prove because fees were awarded to a prevailing plaintiff as a matter of course. *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc. (Frank Music II)*, 886 F.2d 1545, 1556 (9th Cir. 1989) ("Plaintiffs in copyright actions may be awarded attorney's fees simply by virtue of prevailing in the action: no other precondition need be met, although the fee awarded must be reasonable"); *McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316, 323 (9th Cir. 1987) ("fees are generally awarded to a prevailing plaintiff"); *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821, 832 (11th Cir. 1982) (same); *Micromanipulator Co. v. Bough*, 779 F.2d 255, 259 (5th Cir. 1985) (although discretionary, the award of attorney's fees is "the rule rather than the exception and should be awarded routinely").

The articulated purposes of granting fee awards to prevailing plaintiffs included: "encouraging private enforcement and deterring infringements" [*Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc. (Frank Music II)*, 886 F.2d 1545, 1556 (9th Cir. 1989)] and "to serve as an economic incentive for a copyright holder to use the courts in challenging an infringement." *In Design v. K-Mart Apparel*

---

[19] *Marek v. Chesny*, 473 U.S. 1 (1985), *Farrar v. Hobby*, 506 U.S. 103 (1992), and *Fogarty v. Fantasy, Inc.*, 510 U.S. 517 (1994).

Corp., 13 F.3d 559, 568 (2d Cir. 1994) (partially abrogated by *Fogarty*, supra), citing *Oboler v. Goldin,* 714 F.2d 211, 213 (2d Cir. 1983) (per curiam).

Following the Supreme Court trilogy noted above, however, district courts like the one at bar are denying all fees to prevailing copyright plaintiffs solely on the basis of a comparison between the amount sought and the amount recovered.

> My discretion with respect to Rule [*sic* §] 505 is based upon all of the evidence that has been presented in this case to me where *I don't think it warrants one dollar in attorney's fees. I can't understand – I can't understand how you rejected the [$75,000] Rule 68 offer. . . .*

App. 15-18 (noting that rejecting a Rule 68 Offer "has its consequences"). In fact, by denying any fees based solely on the rejection of the Rule 68 Offer, the district court added to the penalty already provided for in Rule 68 – which penalty was also imposed on Chieco. Because $32,700 is less than $75,000, Chieco, despite prevailing, had to bear the majority of his own costs in this matter and those of the defendants following the date of the Rule 68 Offer. That is the penalty provided within the rule as the risk of rejecting a Rule 68 Offer. There is no authority for the trial judge to *add* to that penalty by denying the request for fees in its entirety, including those fees that were incurred *before* the Rule 68 Offer was made.

The degree of success factor, if relevant at all, applies only to the determination of the size of the fee award, not to the threshold question of whether fees are allowed. *See,*

Morales v. City of San Rafael, 96 F.3d 359, 362-363 (9th Cir. 1996) (analogous § 1988 context)[20] (finding that a damage award of $17,500 – approximately half of what was awarded in this case – "*while substantially less than what he sought*, was not nominal" and that that district court erred when it read *Farrar* as standing "for the proposition that 'zero or low attorney's fees' should generally be awarded to § 1983 plaintiffs who receive damages awards that constitute a relatively small portion of the damages they seek"); *see also*, *Texas State Teachers Ass'n v. Garland Indep. School Dist.*, 489 U.S. 782, 790 (1989) (the degree of success may apply to determine the fee *amount*, but is *not relevant* to the determination of fee *eligibility* in an analogous § 1988 setting).

B. Pre-Rule 68 Offer Fees Should be Added to Jury Award Amount Before Comparing the "Ultimately Recovered" Figure Against the Rule 68 Figure for post-Offer Cost Shifting Purposes

There is no authority for denying Chieco his *pre*-Rule 68 Offer fees and, indeed because the court's justification for denying Chieco's post-offer fees[21] does not apply to his pre-offer fees, the latter should have been awarded. Then that fee figure, together with the $32,700 damage award and the pre-Rule 68 cost award, should be added together

---

[20] *Compare* 42 U.S.C. § 1988(b) (civil rights fee statute – "The court . . . may allow . . . a reasonable attorney's fee as part of the costs"); *with* 17 U.S.C. § 505 (Copyright Act fee statute – "[T]he court may . . . award a reasonable attorney's fee to the prevailing party as part of the costs").

[21] The only reason articulated by the court for exercising its discretion under § 505 against Chieco's request for fees is that Chieco did not accept Lands' End's Rule 68 Offer. App. 15-18.

to arrive at the "ultimately recovered" figure. Only then can a determination be made of whether the cost-shifting mechanism of Rule 68 was triggered by the $75,000 offer. If that calculation is done, Chieco believes he will have ultimately recovered a judgment that *is* more favorable than the Rule 68 Offer. *Champion Produce v. Ruby Robinson Co.*, 342 F.3d 1016, 1020 & 1023 n.3 (9th Cir. 2003); *Scheriff v. Beck*, 452 F.Supp. 1254 (D. Colo. 1978) (only fees "incurred after" the date of the offer are precluded).

If those steps are taken, then the cost bill below can be amended to reflect a full cost recovery to Chieco, none to Lands' End (because the post-offer costs were granted based on a comparison of the wrong figures), and all fees (not just pre-offer fees) to Chieco because a comparison of the proper figures does not result in the adverse consequences of Rule 68.

If those steps are taken, then Chieco will not be in the anomalous position of a net financial loss from having pursued, and won, his copyright case against Lands' End and judicial economy will be served by saving others similarly situated from having to go the distance through the federal court system.

CONCLUSION

Clearing up the Rule 68, Section 505, post-*Farrar/Fogarty/Marek* case law in this case will be of great assistance to myriad courts, parties, and counsel on all sides of existing and future copyright cases. The actions of the federal courts on the issues addressed will be realigned with the purposes Congress expressed behind the damage, cost, and fee provisions of the Copyright Act.

Theoretically, then courts on all levels will have fewer issues to litigate and/or review on appeal.

Articulating all of these principles from the highest court in the land and impressing upon the district courts to apply the law as it is written is the only way that the infringement deterrence purpose of the Copyright Act can begin to be achieved. Presently, with license fee instructions, where they exist, replacing strangers for the parties at bar, or not allowing any license at all, and with the statutory profit analysis all but ignored in favor of "overall profit and loss" proof in lieu of those figures that pertain only to the infringing activity, and with cost-shifting possibilities, the denial of discretionary fees, and admission without scrutiny of defense damage "experts," the courts are giving would-be infringers every incentive to steal rather than to license copyrighted material. The cost-benefit analysis, at least as the federal courts are currently applying the Copyright Act, is in favor of infringement. Immediate, unapologetic, and decisive input from this Court on the language and purpose of the federal Copyright Act that it is charged with enforcing is necessary and would be timely.[22]

---

[22] Officially approving a license fee as a measure of damages in copyright cases is the beginning, though not necessarily the end, of the story – as a glance at copyright and patent cases reveals: *See, e.g., Deltak, Inc. v. Advanced Systems, Inc.*, 767 F.2d 357, 363 n.5 (7th Cir. 1985) (a defendant infringer "cannot expect to pay the same price in damages as it might have paid after freely negotiated bargaining, or there would be no reason scrupulously to obey the copyright law"); *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 1176-1177 (1st Cir. 1994) ["rigid isolation of the value of the infringement to the defendant (which would approximate a 'reasonable' license fee) would effectively condone a license the plaintiff never wished to grant"]; *Sands, Taylor & Wood v. Quaker Oats Co.*, 34 F.3d 1340 (7th Cir. 1994)

(Continued on following page)

Ineffective remedies "encourage willful and deliberate infringement." *Douglas v. Cunningham*, 194 U.S. 297, 209 (1935).

DATED: May 3, 2005

Respectfully submitted,

STEFANIE M. BROWN

Counsel for Petitioner
Vincent Chieco

("[T]he award [based solely on a hypothetical analysis that merely] seeks to mirror the bargain at which the parties would have arrived had negotiations taken place . . . becomes for the malefactor simply the cost of doing business. There is no incentive to engage in protracted, expensive, and perhaps unsuccessful licensing negotiations when the consequence of getting caught for trade piracy is simply to pay what should have been paid earlier. Nunc pro tunc payment of the royalty fee becomes simply the 'judicial expense' of doing business. *Playboy* [*Enterprises, Inc. v. Baccarat Clothing Co., Inc.*,] 692 F.2d [1272], at 1275 [(9th Cir. 1982)]; *cf. Panduit Corp. v. Stahlin Bros.Fibre Works, Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978) ('[T]he infringer would have nothing to lose and everything to gain if he could count on paying only the normal, routine royalty noninfringers might have paid')"; *Smithkline Diagnostics, Inc. v. Helena Laboratories Corp.*, 926 F.2d 1161, 1168 (Fed. Cir. 1991) (defendant's proven license percentages of 3% and 5% not controlling, even where plaintiff's proof thrown out, because plaintiff was an unwilling licensor; court imposed 25% license – patent case); *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1109-1110 (Fed. Cir. 1996) ("The fact that an infringer had to be ordered by a court to pay damages, rather than agreeing to a reasonable royalty, is also relevant. Under such an analysis, the district court would normally instruct the jury to return a damage award, based on a willing licensee-willing licensor negotiation **and** these other factors, in an amount sufficient to adequately compensate the patentee for the infringement" – calling it a "reasonably royalty *for an infringer*" – emphasis in original – patent case); *Fromson*, 853 F.2d at 1575, n.11 ("courts have on occasion recognized the need to distinguish between royalties payable by infringers and non-infringers").

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

VINNIE CHIECO, Plaintiff-Appellant, v. WILLIS & GEIGER, a Wisconsin corporation; LANDS' END, a Wisconsin corporation, Defendants-Appellees.	No. 01-16926 D.C. No. CV-99-03986-CRB **MEMORANDUM***
VINNIE CHIECO, Plaintiff-Appellant, v. WILLIS & GEIGER, a Wisconsin corporation; LANDS' END, a Wisconsin corporation, Defendants-Appellees.	No. 01-17479 D.C. No. CV-99-03986-CRB

* This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as provided by Ninth Circuit Rule 36-3.

VINNIE CHIECO, an individual Plaintiff-Appellee, v. WILLIS & GEIGER, a Wisconsin corporation; LANDS' END, a Wisconsin corporation, Defendants-Appellants.	No. 01-17501 D.C. No. CV-99-03986-CRB
VINNIE CHIECO, Plaintiff-Appellant, v. WILLIS & GEIGER, a Wisconsin corporation; LANDS' END, a Wisconsin corporation, Defendants-Appellees.	No. 02-15166 D.C. No. CV-99-03986-CRB

Appeal from the United States District Court
for the Northern District of California
Charles R. Breyer, District Judge, Presiding

Argued and Submitted October 4, 2004
San Francisco, California

(Filed Nov. 17, 2004)

Before: RYMER, TALLMAN, and BEA, Circuit Judges.

Vinnie Chieco, an independent copywriter, successfully sued Lands' End and Willis & Geiger, a now defunct subsidiary of Lands' End, for copyright infringement. The jury awarded Chieco zero dollars in actual damages and

$32,700 in statutory damages. Chieco appeals various rulings by the district court relating primarily to his claim for damages. We AFFIRM.

First, Chieco argues that the district court abused its discretion by denying his Federal Rule of Civil Procedure 50(b) motion for judgment as a matter of law. Because Chieco made no Rule 50(a) motion at the close of all the evidence, the district court was within its discretion to deny his Rule 50(b) motion. *Lifshitz v. Walter Drake & Sons, Inc.*, 806 F.2d 1426, 1428 (9th Cir. 1986).

Second, Chieco also argues on appeal that the district court abused its discretion in refusing to instruct the jury on vicarious infringement, contributory infringement, and imputed knowledge. Because there was no evidence in the record that Willis & Geiger employees knew of the infringement or had any ability to control the infringing activities, all three requested instructions were properly refused. *See, e.g., Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (contributory infringement requires knowledge of the infringing activities); *id.* at 262 (vicarious liability requires that the individual have the right and ability to supervise the infringing activity).

Third, Chieco appeals the district court's admission of testimony from Dr. Matthew Lynde, Lands' End's expert witness. Although the required procedure when objection is made to the propriety of an expert witness is to make a determination of reliability on the record for any witness offered under Federal Rule of Evidence 702 or 703, *see Mukhtar v. California State Univ., Hayward*, 299 F.3d 1053, 1066 (9th Cir. 2002), even assuming that the district court did not make the required determination, any error on this record was harmless. The jury did not accept

Lynde's expert testimony regarding Chieco's claimed actual damages, and awarded zero damages.

Fourth, Chieco argues that the district court made certain statements that prejudiced him and improperly influenced the jury's damages award. To the contrary, the record indicates that the district court exhibited exemplary patience during a complicated two-week trial. Moreover, Chieco's argument is predicated on his mischaracterization of the district court judge's statements that had no prejudicial effect on Chieco. *See, e.g., Kern v. Leyolor Lorentzen, Inc.*, 899 F.2d 772, 780 (9th Cir. 1990) (judicial comments that may be misunderstood out of context are not necessarily prejudicial). In any event, the district court judge clarified his statements, curing any possible prejudicial effect.

Additionally, Chieco argues that the district court erred by omitting a line from the special jury verdict from regarding the calculation of actual damages. The special verdict form was an accurate statement of the law. There was no error.

Finally, on the cross-appeal in No. 01-17501, the district court did not abuse its discretion in denying each party its attorneys' fees.

Each party shall bear its own costs.

AFFIRMED.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

VINNIE CHIECO, Plaintiff-Appellant, v. WILLIS & GEIGER, a Wisconsin corporation; et al., Defendants-Appellees.	No. 01-16926 D.C. No. CV-99-03986-CRB **JUDGMENT**
VINNIE CHIECO, Plaintiff-Appellant, v. WILLIS & GEIGER, a Wisconsin corporation; et al., Defendants-Appellees.	No. 01-17479 D.C. No. CV-99-03986-CRB **JUDGMENT**
VINNIE CHIECO, an individual, Plaintiff-Appellee, v. WILLIS & GEIGER, a Wisconsin corporation; et al., Defendants-Appellants.	No. 01-17501 D.C. No. CV-99-03986-CRB **JUDGMENT**
VINNIE CHIECO, Plaintiff-Appellant, v. WILLIS & GEIGER, a Wisconsin corporation; et al., Defendants-Appellees.	No. 02-15166 D.C. No. CV-99-03986-CRB **JUDGMENT**

(Filed Feb. 15, 2005)

Appeal from the United States District Court for the Northern District of California (San Francisco).

This cause came on to be heard on the Transcript of the Record from the United States District Court for the Northern District of California (San Francisco) and was duly submitted.

On consideration whereof, it is now here ordered and adjudged by this Court, that the judgment of the said District Court in this cause be, and hereby is **AFFIRMED**. Each party shall bear their own costs.

Filed and entered Wednesday, November 17, 2004

ENTERED IN CIVIL DOCKET Aug. 27, 2001

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

VINNIE CHIECO,

Plaintiff.

v.

WILLIS & GEIGER, et al.,

Defendants. /

No. C 99-03986 CRB

JUDGMENT

(Filed Aug. 22, 2001)

The jury having entered its special verdict for the plaintiff awarding actual damages in the amount of zero dollars and statutory damages in the amount of $32,700, and the plaintiff having elected to accept statutory damages, the Court hereby ORDERS that judgment be entered in favor of the plaintiff Vinnie Chieco and against the defendants Lands' End and Willis & Geiger in the amount of $32,700.

IT IS SO ORDERED.

Dated: 8/22/01

/s/ Charles R. Breyer
CHARLES R. BREYER
UNITED STATES
DISTRICT JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

VINNIE CHIECO,

Plaintiff.

v.

WILLIS & GEIGER, et al.,

Defendants. /

No. C 99-03986 CRB

SPECIAL VERDICT FORM

(Filed Aug. 22, 2001)

After you have reached unanimous agreement on a verdict, your foreperson should fill in, date, and sign the accompanying form and advise the Court that you have reached a verdict.

Dated: 8/21/01

/s/ Charles R. Breyer
CHARLES R. BREYER
UNITED STATES
DISTRICT JUDGE

We the jury in the above-entitled action find the following the Special Verdict on the following questions submitted to us:

I. Whether Lands' End is Liable for Copyright Infringement

1. Was the plaintiff the owner of a valid copyright?

Yes X No _____

2. Did Lands' End infringe the plaintiff's copyright?

Yes ___X___ No _____

3. Were Lands' End's allegedly infringing works substantially similar to the plaintiff's work?

Yes ___X___ No _____

4. Did Lands' End infringe the plaintiff's copyright without receiving from the plaintiff a license in writing authorizing it to use the copyrighted material as it did?

Yes ___X___ No _____

If you answered questions 1 through 4 "Yes," please answer questions 9 through 14 in Section III. If you answered any one of questions 1 through 4 "No," please write "N/A" in the spaces provided in questions 9 through 14.

II. Whether the Defendants are Liable for Fraudulent Concealment

5. Did either of the defendants conceal or suppress a material fact?

Yes ___X___ No _____

6. Did either of the defendants intentionally conceal or suppress the fact with the intent to defraud the plaintiff?

Yes _____ No ___X___

7. Was the plaintiff unaware of the fact and would he have acted differently if he had known of the concealed or suppressed fact?

   Yes _____ No _____

8. Did either of the defendants' concealment or suppression of the fact cause the plaintiff to sustain damage?

   Yes _____ No _____

If you answered questions 5 through 8 "Yes," please fill out question 15 in Section III. If you answered any one of questions 5 through 8 "No," please write "N/A" in question 15.

III. The Plaintiff's Damages

A. The Plaintiff's Copyright Infringement Damages

If you answered questions 1 through 4 "Yes," please answer questions 9 through 14. If you answered any one of questions 1 through 4, "No," please write "N/A" in the spaces provided in questions 9 through 14.

1. Actual Damages and Profits

9. Please indicate the amount of actual damages suffered by the plaintiff, if any, as a result of Lands' End's infringement:

   $0

10. Please indicate the amount of profits, if any, Lands' End realized as a result of its infringement:

    $0

11. Please indicate the amount of profits you answered in question 11, if any, which is attributable to Lands' End's use of the copyrighted work and which is not included in your award of actual damages:

N/A

2. Statutory Damages

12. Did Lands' End commit its infringement willfully?

Yes _____ No X

13. Was Lands' End unaware and did it have no reason to believe that its acts constituted an infringement of copyright?

Yes X No _____

14. Please indicate the amount of statutory damages you consider just. PLEASE ONLY ANSWER ONE OF THESE THREE CHOICES; I.E., ONLY ANSWER QUESTION 14A, QUESTION 14B, ***OR*** QUESTION 14C. ***DO NOT ANSWER ALL THREE QUESTIONS.***

a. If you answered question 12 "Yes," and question 13 "no," you may award as much as $150,000 and not less than $750 per work infringed as you consider just.

$ _____ per work

x 2 works infringed

= $ _____ total

b. If you answered question 12 "No," and question 13 "Yes," you may award as much as $30,000 and not less than $200 per work infringed as you consider just.

$ 16,350 per work

x 2 works infringed

= $ 32,700 total

c. If you answered question 12 "No," and question 13 "No," you may award as much as $30,000 and not less than $750 per work infringed as you consider just.

$ _____ per work

x 2 works infringed

= $ _____ total

B. The Plaintiff's Fraudulent Concealment Damages

15. If you answered questions 5 through 8 "Yes," please indicate the amount that the plaintiff was damaged as a result of either of the defendants' fraudulent concealment. If you answered any one of questions 5 through 8 "No," please write "N/A" in the space provided.

N/A

Dated: Aug. 22, 2001 /s/ Rick Hughes
Foreperson
Rick Hughes

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

VINNIE CHIECO, Plaintiff-Appellant, v. WILLIS & GEIGER, a Wisconsin corporation; et al., Defendants-Appellees.	No. 01-16926 D.C. No. CV-99-03986-CRB **ORDER**
VINNIE CHIECO, Plaintiff-Appellant, v. WILLIS & GEIGER, a Wisconsin corporation; et al., Defendants-Appellees.	No. 01-17479 D.C. No. CV-99-03986-CRB
VINNIE CHIECO, an individual, Plaintiff-Appellee, v. WILLIS & GEIGER, a Wisconsin corporation; et al., Defendants-Appellants.	No. 01-17501 D.C. No. CV-99-03986-CRB
VINNIE CHIECO, Plaintiff-Appellant, v. WILLIS & GEIGER, a Wisconsin corporation; et al., Defendants-Appellees.	No. 02-15166 D.C. No. CV-99-03986-CRB

(Filed Feb. 2, 2005)

Before: RYMER, TALLMAN, and BEA, Circuit Judges.

The panel has voted to deny the petition for panel rehearing and to deny the petition for rehearing en banc.

The full court has been advised of the petition for rehearing en banc and no judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The Petition for panel rehearing and the petition for rehearing en banc are denied.

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

BEFORE THE HONORABLE CHARLES R. BREYER, JUDGE

VINNIE CHIECO, PLAINTIFF, VS WILLIS & GEIGER, A WISCONSIN CORPORATION, ET AL, DEFENDANTS.	NO. C 99-3986 CRB PAGES 1-26

SAN FRANCISCO, CALIFORNIA
FRIDAY, NOVEMBER 9, 2001

TRANSCRIPT OF PROCEEDINGS

* * *

[21] **MS. BROWN:** * * * I DIDN'T MEAN TO IMPLY THAT MY CLIENT DIDN'T HAVE A LARGE POTENTIAL DAMAGE IN THIS. AND I BELIEVE THAT HE DID. BUT THERE ARE SITUATIONS IN COPYRIGHT CASES, CIVIL RIGHTS CASES WHERE THERE ARE STATUTORY ALLOWANCES FOR ATTORNEY'S FEES AND COSTS FOR THAT VERY REASON, BECAUSE OTHERWISE PLAINTIFFS' LAWYERS WOULD NOT HAVE AN INCENTIVE, ANY INCENTIVE TO GO FORWARD AND REPRESENT SMALL INDIVIDUALS AGAINST LARGER COMPANIES.

THE COURT: AND SHOULD THEY HAVE THE INCENTIVE TO SPEND HUNDREDS OF THOUSANDS OF DOLLARS TO RECOVER VERY SMALL AMOUNTS? IS THAT IN THE PUBLIC INTEREST?

[22] **MS. BROWN:** * * * SO THAT THE INCENTIVE FOR THE DEFENDANT TO SETTLE IS THAT THE PLAINTIFF IS ENTITLED TO ATTORNEY'S FEES IF THEY PREVAIL, EVEN IF IT'S A SMALL AMOUNT.

NOW, IF YOU WOULD APPLY THE RULE 68 OFFER IN THE WAY YOU'RE APPARENTLY APPLYING IT IN THIS CASE, THEN A DEFENDANT, IN, FOR INSTANCE, A CIVIL RIGHTS CASE, CAN GO ALL THE WAY UP TO THE TIME OF TRIAL, FORCE THE DEFENDANT – FORCE THE PLAINTIFF TO GO ALL THE WAY UP TO THE TIME OF TRIAL WHEN IT'S ONLY FORTY, 50,000 AT ISSUE. AND THEN, MAKE AN OFFER OF $40,000. AND, THEORETICALLY, ACCORDING TO THEIR THEORY, WHICH APPARENTLY YOU'RE GOING UNDER, WIPE OUT ALL THE ATTORNEY'S FEES EVEN THOUGH THEY HAVE MADE PLAINTIFF WHOLE.

THE COURT: I DON'T THINK ATTORNEY'S FEES ARE PART OF RULE 68, MS. BROWN. YOU ARE, OF COURSE, GETTING CONFUSED. RULE 68 TALKS ABOUT COSTS.

MS. BROWN: BUT THE SECTION 505 –

THE COURT: MY DISCRETION WITH RESPECT TO RULE 505 IS BASED UPON ALL OF THE EVIDENCE THAT HAS BEEN PRESENTED IN THIS CASE TO ME WHERE I DON'T THINK IT WARRANTS ONE DOLLAR OF ATTORNEY'S FEES. I CAN'T UNDERSTAND – I CAN'T UNDERSTAND HOW [23] YOU REJECTED THE RULE 68 OFFER.

* * *

[24] *** **THE COURT:** ... YOUR REJECTION OF THE RULE 68 OFFER IS IN THERE FOR A REASON. THE RULE 68 OFFER IS TO ENCOURAGE SETTLEMENT. YOU CHOSE NOT TO ACCEPT IT OR YOUR CLIENT DID.

* * *

MS. BROWN: THAT NUMBER WAS ONE-TENTH OF THE WHAT THE MEDIATOR'S COMPROMISE FIGURE WAS.

* * *

MS. BROWN: AND HE CAME UP WITH AN INDEPENDENT [25] COMPROMISE FIGURE OF 710,000.

THE COURT: WELL, GOOD FOR HIM.

MS. BROWN: WELL, I'M JUST SAYING IF THEY WANT TO BRING UP $175,000 OFFER AS PROOF THAT MY POSITION WAS UNREASONABLE, I'M ENTITLED TO PUT IN THE OTHER SIDE OF THE EQUATION, WHICH IS AN INDEPENDENT MEDIATOR'S OFFER OF WHAT HE THOUGHT WAS A COMPROMISE FIGURE, WHICH WAS SUBSTANTIALLY MORE THAN THAT.

THE COURT: I'M DISREGARDING BOTH OF THOSE THINGS. I'M RELYING ON THE FACT THAT YOU WERE OFFERED $75,000 IN OCTOBER OF LAST YEAR, AND YOU CHOSE TO NOT TAKE THAT OFFER. AND THAT HAS ITS CONSEQUENCES, MS. BROWN.

* * *

[26] **THE COURT:** . . . I COME TO THE CONCLUSION THAT YOU SHOULD BE AWARDED YOUR COSTS UP TO THAT DATE AND NOT FURTHER.

AND THAT LAND'S END SHOULD BE AWARDED ITS COSTS POST THAT DATE. AND THAT NO ATTORNEYS' FEES ON EITHER SIDE SHOULD BE AWARDED.

* * *